

Center City Development Corporation Board Meeting

To: Center City Development Corporation (CCDC) Board of Directors
From: DMC Staff
Date: December 13, 2018
RE: Development Loan Application – 540 S. Main St. (Arcade Building)

The enclosed Development Loan application has been submitted for consideration at the December 19, 2018, CCDC Board Meeting.

Project: 540 S. Main St.

Applicant/Owner: Jeff Zepatos, Representative
Arcade Restaurant, LLC
540 S. Main St.
Memphis, TN 38103

Applicant's Request: Development Loan in an amount up to \$200,000.

Project Description: The subject property is a 0.39-acre site located at the southeast corner of S. Main Street and G.E. Patterson Avenue in the heart of the South Main neighborhood.

The subject property is a historic commercial building constructed circa 1925. The building includes a series of traditional commercial bays with the Arcade Restaurant serving as the anchor tenant at the corner. The single-story building (over 15,543 SF with additional basement space) features a flat roof with a parapet and exterior cladding of brick with large aluminum and wood storefront windows. The property is considered a contributing structure as part of the South Main National Register Historic District.

The applicant is requesting a \$200,000 Development Loan from the CCDC to assist with permanent building improvements. The Arcade Restaurant is undergoing a renovation of its second bay space and expansion into an additional commercial bay to the south. The renovation and expansion of the previously vacant commercial bay will include upgraded bathrooms, bar, coffee bar, and significant HVAC, electrical, plumbing, and structural work.

The applicant is also requesting CCDC approval of an Exterior Improvement Grant (EIG). EIG grant funds will be used to renovate the primary building façades on GE

Patterson and S. Main Street. Additionally, exterior improvements are proposed for the secondary facades around the center courtyard and at the south elevation of the building and parking lot.

The applicant plans to begin renovation work in January, 2019 and be finished in May, 2019.

Overall Project Budget

Sources:

Owner's Equity	\$98,806
Bank Financing	\$420,000
CCDC Development Loan	\$200,000
<u>CCDC EIG</u>	<u>\$60,000</u>
Total Project Sources	\$778,806

Uses:

Construction costs	\$718,806
<u>Professional fees</u>	<u>\$60,000</u>
Total Project Uses	\$778,806

Dev. Loan Budget:

The Development Loan can be used for building renovations, site improvements, and new construction. Building system improvements, permanent equipment, and first floor, non-residential tenant improvements that are permanent in nature are also eligible uses. Removable fixtures and equipment and soft costs are not eligible expenses under the program.

The CCDC Development Loan is permanent financing at an interest rate of 1%. While the loan has a 10-year term, the amortization schedule is based on a 20-year period in order to offer the applicant lower monthly payments.

The following scope of work elements are potentially eligible expenses for the Development Loan:

Interior demolition	\$15,540	(6%)
Wood framing	\$12,555	(5%)
Interior finish	\$33,827	(12%)
Structural	\$27,583	(10%)
Electrical	\$95,500	(35%)
Plumbing	\$37,600	(14%)
HVAC	\$32,805	(12%)
Metal framing/insulation/drywall	\$13,950	(5%)
<u>Stair replacement</u>	<u>\$4,255</u>	<u>(1%)</u>
Total Eligible Uses	\$273,615	(100%)

Design Review:

The DRB will review the project in early 2019.

Final Loan Amount: The Development Loan program has a maximum loan amount of \$200,000. As permanent financing, the final loan amount is reimbursable and based on approved receipts.

EBO Program: Any project that is awarded a financial incentive from the DMC must comply with the Equal Businesses Opportunity (EBO) Program. The EBO program requires that the applicant make a best faith effort to reach no less than 25% participation by women and minority-owned businesses (MWBE) for the portion of the project scope that is eligible for bidding or subcontracting. The portion of a project subject to meeting the EBO requirements typically involves the hard and soft costs for design & construction.

According to the estimated budget, a 25% level of MWBE inclusion for the hard and soft costs related to design and construction would be approximately **\$194,702**.

Staff Evaluation: The DMC's Strategic Plan encourages facilitating and accelerating real estate development, incentivizing Downtown development when necessary to increase investment and economic development, and fighting blight to improve the visual appearance of the built environment Downtown.

This project is perfectly aligned with the DMC's primary goals of improving commercial property values and encouraging new investment in Downtown Memphis. With major investments underway or recently completed at Central Station, Artspace Lofts, Malco Theater, and Arrive Hotel, this property is well positioned to add to the significant momentum seen in the South Main neighborhood.

The Arcade Restaurant is an essential Downtown landmark and major anchor on South Main Street. Approving an EIG and Development Loan for this project allows the applicant to improve the exterior of the building and expand operations into a vacant commercial bay. Permanent building improvements will allow the building to operate as the home of the Arcade Restaurant and several locally-owned small businesses for the next 100 years. Additionally, improvements to the adjacent parking lot will enhance perceptions of safety while improving the appearance of the parking area as seen from Central Station and the Main Street trolley.

Recommendation: **Staff recommends approval of a Development Loan in an amount up to \$200,000, based on approved receipts and subject to all standard closing requirements and conditions.**